New York City Comptroller
John C. Liu

NEWS RELEASE

PR12-06-067
Contact: Mike Loughran, (212) 669-3747

June 6, 2012
Page(s): 5

****

LIU IDENTIFIES EXTRA $100 MILLION FOR FY 2013 CITY BUDGET

-Additional funds available to provide budgetary relief -

****

NEW YORK, NY – Due to the $997 million General Obligation bond refinancing set to be finalized on June 7th and lower than expected interest rates for the current year, the City will gain more than $100 million in additional funds to help close gaps in the Fiscal Year 2013 budget, according to City Comptroller John C. Liu.

Liu will provide the information, which has not yet been included in the Mayor's Executive Budget, today when he testifies before the City Council Finance Committee.

Comptroller Liu said that lower than expected interest rates will yield $33.6 million in savings which could be rolled over to FY 2013; while the refinancing, which was announced on May 23rd by the Comptroller's Office and Mayor's Office of Management and Budget, would produce savings of $67.8 million in FY 2013 and $68.9 million for Fiscal Year 2014.

"By successfully navigating the bond market, we have been able to save more than $100 million which can now be used to provide budgetary relief," Comptroller Liu said. "As our national and local economies remain fragile and we are facing a number of risks to the City's bottom line, we must continue to aggressively identify savings and recoup every single dollar the City is rightfully owed."

Comptroller Liu also reiterated his call for the City to recoup as much as $163 million from Hewlett Packard as a result of overbilling and underperforming on the contract to upgrade the City's 911 call system, which was uncovered as a result of a recent audit.

Some other aspects of Liu's testimony and budget report, which can be found at http://www.comptroller.nyc.gov/bureaus/bud/budget_reports.shtm include:

- The budget relies heavily on one-shots to close the gap, specifically an estimated $1 billion for the sale of taxi medallions that may not materialize
- The settlement from CityTime and $1 billion in funds from the Retiree Health Benefit Trust are being used to close gaps

- Events outside the City's control such as the Eurozone or a stalemate in Washington D.C. should spur the City to institute a Capital Acceleration plan to foster job growth and address the high unemployment rate
- The potential cost as a result of City Hall's failed negotiations with the United Federation of Teachers and Council of School Supervisors and Administrators could be as high as $2.5 billion in FY 2013

COMPTROLLER LIU'S FULL TESTIMONY IS BELOW:

TESTIMONY BY

NEW YORK CITY COMPTROLLER JOHN C. LIU
REGARDING THE MAYOR'S EXECUTIVE BUDGET FOR FY 2013 AND THE FINANCIAL PLAN FOR FY 2013–FY 2016
(As prepared for delivery)

Thank you, Chairman Recchia, and members of the City Council Finance Committee, for providing me with the opportunity to present testimony today on the Executive Budget for Fiscal Year 2013. I am joined by Deputy Comptroller for Budget and Accountancy Simcha Felder, and our Executive Director for Budget Jonathan Rosenberg.

Before we get into the details of the Mayor's budget I would like to give a very brief overview of some economic issues that are affecting the City.

The City's FY 2013 Executive Budget and Financial Plan for FYs 2013–2016 illustrates the irregular pattern of the local economic recovery that the City has experienced over the last two years.

While in 2011 there were some promising signs that an economic recovery might be accelerating, in general, New York City's economy over the last year has been erratic and somewhat disappointing.

Embedded in my office's analysis of the City's economy are some external pressures that could negatively influence the City's financial well-being. The uncertainty resulting from the European debt crisis is an ongoing drag on many key industries. A possible breakup of the Eurozone is a primary threat to both the U.S. and local economies. In addition, the uncertainty surrounding this year's Presidential and Congressional elections adds further instability. The likelihood of further partisan stalemates in Washington threatens to impede agreement upon many pieces of critical economic policy. Failure to act on key legislation would be disastrous, likely stalling any national economic recovery. Nearly all likely scenarios for events in Europe and Washington entail adverse economic consequences for both the U.S. and New York City in the coming year.

Mayor Bloomberg has presented you with a $68.72 billion Executive Budget for Fiscal Year 2013. This budget represents very nominal growth over the plan he presented to you in February. While the changes that have occurred since the Preliminary Budget release are minimal they highlight a disturbing trend that has been overlooked in recent years.

The first change to this budget is the realization that the City's FY 2012 revenues will be $263 million lower than planned. While this represents a very small portion of the City's overall revenues it signifies that the City's reliance on the materialization of unanticipated revenues to fund budget gaps and restore critical services may be coming to an end. Neither my office, nor the Office of Management and Budget (OMB), foresee a growth in revenues that in any way mirrors the pre-recession experience. My office estimates that the City's tax revenues grew by approximately 5.7 percent annually in the twenty-year period between 1987 and 2007. In the succeeding five years, average annual revenue growth did not even reach two percent. If revenue growth continued at pre-2007 rates we would be sitting here debating the most efficient use of an ever growing budget surplus and not wringing our hands over the potential for further necessary budget cuts.

The second disturbing trend is related to how the City managed to make up for decreased revenue in the Executive Budget. The Executive Budget includes a one-time infusion of $466 million resulting from the settlement with SAIC, the lead contractor on the scandal-ridden CityTime project. While this settlement was wholly justified and necessary, utilizing the funds to plug a budget gap is another symptom of the City's budgetary weakness.

In FYs 2012 and 2013 alone the City is relying on more than $3.1 billion of one-time revenue sources to essentially balance the budget. This practice, however, is far from new. In fact, since FY 2006 a net total of nearly $8 billion in one-shot stopgap measures have been used to balance the City's budgets. The City's reliance on one-time sources of revenue such as the taxi medallion sale or the Retiree Health Benefit Trust masks a large structural imbalance in the financial plan.

In fact, while the Mayor has presented you with a balanced budget, my office has identified substantial risks to the plan, that if realized would open up a deficit of more than $3.6 billion in Fiscal Year 2013.

The largest single risk to the Mayor's current budget is the exclusion of funding for potential wage increases corresponding to the 2008-2010 round of collective bargaining for the United Federation of Teachers and the Council of School Supervisors and Administrators. Based on the precedent set by previous labor agreements, the potential cost to the City of retroactive UFT and CSA agreements is $2.5 billion in Fiscal Year 2013 and $900 million in each subsequent year. It should also be noted that there are currently roughly 200,000 City employees working without contracts.

Another major risk to the Mayor's plan is the reliance on $1 billion from the sale of 2,000 taxi medallions as part of the five-borough taxi plan. While we do not take issue with the per-medallion sale price estimate, we feel that the timing of the sale could be in jeopardy due to multiple pending litigations. Just last week a temporary restraining order was issued that will prevent the City from selling any of the 2,000 medallions. While we cannot be certain of the outcome of this litigation, the longer it drags on the less likely any medallions will be sold and thus any revenue will be accrued in FY 2013. We now believe the entire $1 billion should be viewed as a weakness in the upcoming budget.

-more-

One additional thing I want to note regarding the current financial plan is the fact that pension spending remains relatively flat across the next four fiscal years. However, as I noted in my testimony on the Preliminary Budget, recent changes in the methodology for calculating pension liabilities effectively defer the recognition of these costs, which means City Hall is essentially kicking the can down the road for future generations to deal with.

Given these serious issues with the budget as well as the fact that a host of threats largely outside of our control could damage our City's economy, we must proactively implement economic policies that boost employment, increase revenues, and reduce expenses.

Speeding up the City's capital plan is one way to address the City's stubbornly high unemployment which disproportionately affects communities of color. As you finalize your budget, I am urging the Council to consider the Capital Acceleration plan proposed by my office, which will help speed up capital-funded projects, take advantage of historically low interest rates and low construction costs, and most importantly, create as many as 15,000 much-needed jobs in the next two years.

The plan would push forward projects in the City's capital plan that has already been approved, such as building schools, and fixing roads and bridges. We propose that the City evaluate these long-term pipelines and identify projects that would result in $2 billion in spending for Fiscal Years 2013 and 2014. This would not be new spending, but a frontloading of capital budget commitments.

Two-thirds of the jobs created would be construction jobs. The others would be spread throughout the economy – including infrastructure engineers and other professionals. At the same time, the capital acceleration plan would help address pressing infrastructure challenges facing the City right now, such as school overcrowding.

More jobs, better infrastructure, low construction costs and lower borrowing costs. This is a plan that makes good economic sense, and I am advocating for its adoption in the Fiscal 2013 budget.

Revenues could also be increased by making sure that we use our City's tax incentives more judiciously. Too often we see incentives go to big corporations that overpromise and under deliver. For instance, my audit staff recently took a look at the Economic Development Corporation and the performance of companies that received Industrial Development Agency approved tax breaks for various projects. Of the $497 million in tax breaks granted by the IDA in 2009, $318 million went to companies who failed to create the jobs they promised to. These types of programs, undertaken, I grant you, with the best of intentions, offer false hope in place of well-paid jobs to many of our City's most underserved neighborhoods. Moreover, from a budgetary perspective, these tax incentives deplete revenues.

One way to reduce expenses is to hold companies that do business with the City more accountable for their performance. Contractors must know that when they fail to deliver, or worse attempt to defraud taxpayers, the City will do everything in its power to aggressively recoup every possible dollar. Last week, we announced the results of an audit that found that due to the City's poor management and oversight, Hewlett Packard was able to cheat taxpayers out of as much as $163 million for work on the City's 911 system upgrade.

The findings were so egregious that we have turned them over to the Manhattan DA for further review. And we hope to recover at least some of those funds. We encourage the Administration to work diligently to achieve restitution for the taxpayers.

Finally, I'd like to end my testimony by sharing some good news. As you are aware, my office of Public Finance, along with the Mayor's Office of Management and Budget, manages the City's debt portfolio. Tomorrow, the City will finalize a refunding of $997 million in General Obligation bonds. This refunding was announced in late May.

Well, the tally is in and due to the extraordinary efforts of our team, this refunding will enable the City to realize $67.8 million in actual budgetary savings for FY 2013, $68.9 million for FY 14, and a total of $138.6 million over the term of the bonds. In addition, due to lower than planned interest rates, $33.6 million in extra debt service savings will be realized for FY 2012, which will be available to roll over for FY 2013. This effectively means that these savings will provide an additional $101.4 million of budget relief for Fiscal Year 2013.

I hope I was able to provide you with some topics to consider as you continue negotiations with the Administration. I will be more than happy to answer any questions you may have.

# # #